



USDA Foreign Agricultural Service

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## Australia

## Cotton and Products

## Annual

## 2007

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**Report Highlights:**

Australian cotton production for 2007/08 is forecast at 0.7 million bales, or 158 TMT. If achieved, this would be the lowest level of production since the 1983/84 drought and would be well below the historically low 1.1 million bales produced in 2006/07. The reduced production outlook is mainly the result of lower planted area due to the continuing drought.

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Annual Report  
Canberra [AS1]  
[AS]

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## SECTION ONE: SITUATION AND OUTLOOK

### General

The effects of long running drought, which began in 2002/03, look set to continue for the foreseeable future despite the prospect of rain. Dry conditions have now seriously affected the irrigation catchment over the longer term and have seen dam levels fall again after a period of steady recovery.

ABARE recently published water storage data showing current water storages at historically low levels. In the state of Queensland, which produces over one third of Australia's cotton, dam levels range from 25 percent capacity down to 4 percent capacity. In the state of New South Wales (NSW), which produces the remainder of Australia's cotton, dam levels range from 25 percent to just three percent. Furthermore, the landscape surrounding the catchment areas is generally dry, suggesting that good rains are required before increased inflows can commence.

In a recent statement, the Snowy Hydro Scheme (located in Southern NSW and northern Victoria), which generates hydro-electricity as well as providing irrigation water for the Murrumbidgee and Lachlan river irrigation areas, announced that it would begin shutting down hydro-electric generators as the scheme begins to run out of water toward the end of May 2007. The past 11 months have seen inflows fall to 30 percent of the ten-year average and rainfall minimums fall to the lowest for 101 years. Although this irrigation scheme accounts for only a small share of Australia's total cotton production, its forecast closure is a measure of the severity of the drought in eastern Australia at present.

Current dry weather has not further affected the 2006/07 crop, as this crop is now mostly (85%) harvested. Industry sources now look toward the 2007/08 crop, which would not likely be planted before October 2007. Although much time remains for vital rainfall in the lead-up to planting this crop, the current poor state of water reservoirs and the extreme lack of moisture, both in the catchment and the inland cotton growing areas has provided further downward pressure on expectations for the 2007/08 season.

The Prime Minister of Australia recently stated that contingency plans for continuing drought have been made at a national level. These plans effectively elevate the importance of inland urban communities who, under extreme circumstances, will receive water previously stored for irrigation purposes. The Prime Minister's announcement followed a commissioned report stating that *"Unless there are very substantial inflows prior to mid-May 2007 there will be insufficient water available to allow any allocation at the commencement of the 2007- 2008 water year for irrigation, the environment or any purposes other than critical urban supplies."*

Post has assumed average seasonal conditions, including average rainfall, in the lead up to planting the 2007/08 cotton crop. However, even if this is achieved it will not facilitate cotton production more reflective of the long-term average. Post anticipates Australian cotton production to remain at historically low levels for 2007/08 and perhaps 2008/09.

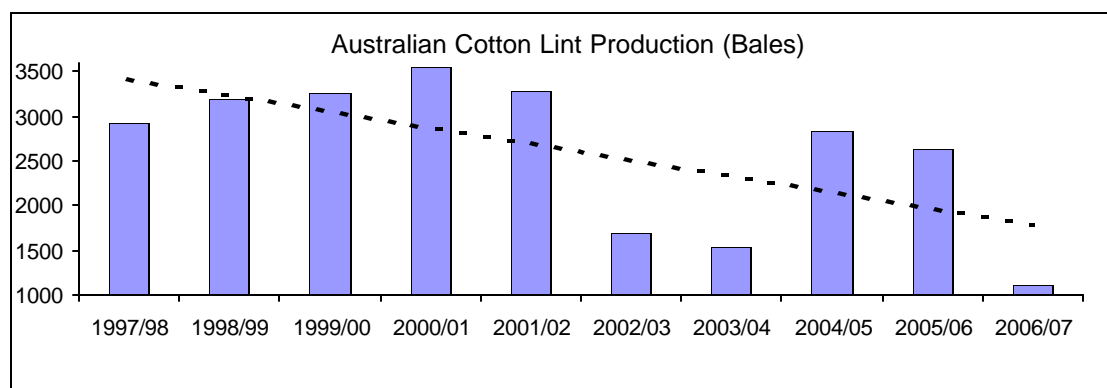
### Production

Australian cotton production for 2007/08 is forecast at 0.7 million bales, or 158 TMT. If achieved, this would be the lowest level of production since the 1983/84 drought and would be well below the historically low 1.1 million bales produced in 2006/07. Post's forecast weighs in well below ABARE's current forecast but remains above some industry projections.

Post expects that the 2007/08 crop will be planted in October/November in 2007. Post has assumed average rainfall from now until planting time, however even if average rainfall is received, production will likely not surpass this forecast level. Post advises that serious downside potential exists for the current forecast if drought conditions persist. Remaining water reserves could be used for the sustenance of inland urban populations rather than for irrigated agriculture.

Lower production is expected to be driven primarily by lower planted area, forecast at 100,000 hectares for 2007/08, down from the estimated 143,000 hectares in 2006/07. Post has also assumed a slightly lower yield as dryland cotton is expected to increase its share of production under more normal weather conditions and lagging irrigation water supplies.

The current low prices received for cotton contrasts with historically high prices received for grain, particularly feed grain. Industry sources suggest that switching from cotton to grain will likely place further downward pressure on cotton acreage in 2007/08.

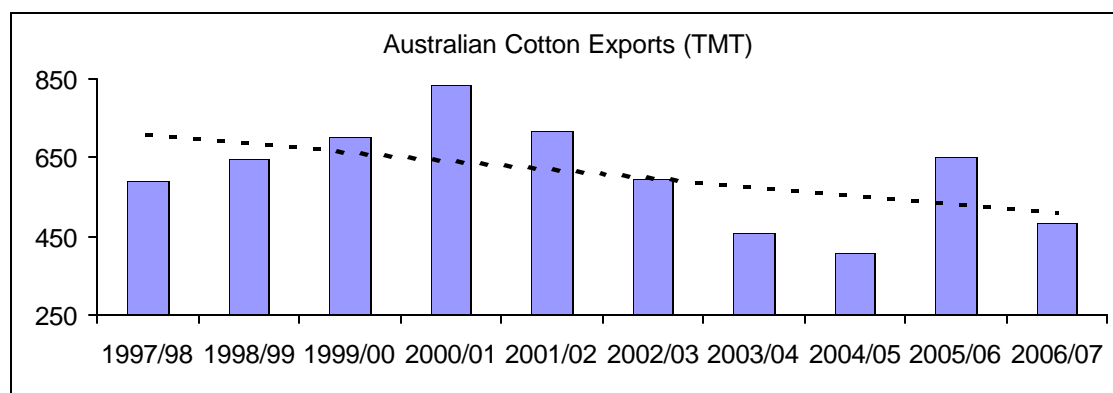


## Exports

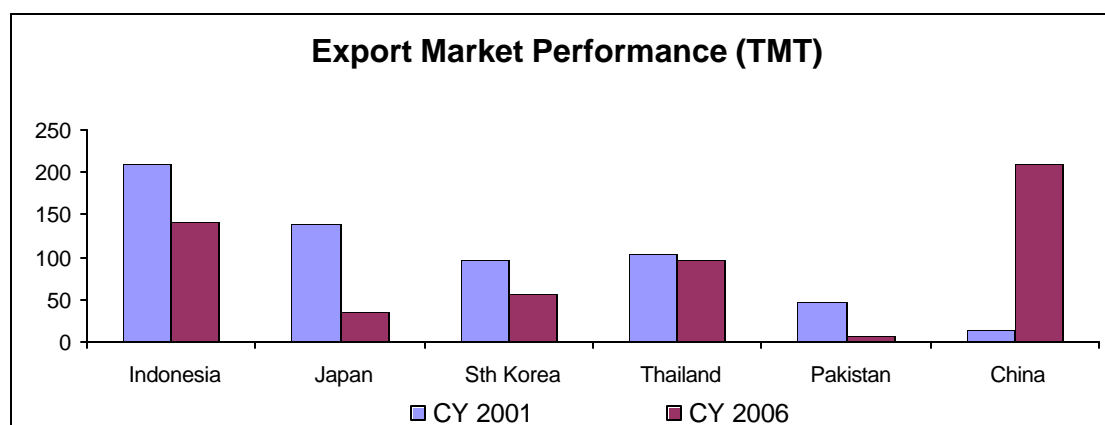
Total cotton exports for 2007/08 are forecast at 1.0 million bales, down sharply on the 2.1 million bales estimated for the previous year. According to historical ABARE data, this forecast would be considered extremely low and has been driven down by extremely low production.

The Australian cotton crop is harvested from March through to May and the crop is then processed over the following year. As a result, the majority of the cotton harvest is processed in the following marketing year. Exports for CY 2007/08 are forecast at higher levels than production, due to larger production estimated for the previous year.

In a typical year, Australia exports the vast majority (around 95 percent) of total cotton lint production.



The decline in average export levels since 2000/01 has seen performance in Australia's top five-export markets decline also. However, exports to China over this period have increased dramatically, despite falling total exports.



## SECTION TWO: STATISTICAL TABLES

PSD Table Cotton										
	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		08/2005	08/2005		08/2006	08/2006		08/2007	08/2007	MM/YYYY
Area Planted	0	0	0	0	0	0	0	0	0	(HECTARES)
Area Harvested	336	336	336	145	143	143	0	0	100	(HECTARES)
Beginning Stocks	1957	1957	1957	1938	1792	2060	858	845	1080	1000 480 lb. Bales
Production	2800	2640	2800	1100	1000	1100	0	0	700	1000 480 lb. Bales
Imports	0	0	0	0	0	0	0	0	0	1000 480 lb. Bales
MY Imports from U.S.	0	0	0	0	0	0	0	0	0	1000 480 lb. Bales
Total Supply	4757	4597	4757	3038	2792	3160	858	845	1780	1000 480 lb. Bales
Exports	2884	2870	2762	2200	2017	2100	0	0	1000	1000 480 lb. Bales
Use	60	60	60	55	55	55	0	0	55	1000 480 lb. Bales
Loss	-125	-125	-125	-75	-125	-75	0	0	-75	1000 480 lb. Bales
Total Dom. Cons.	-65	-65	-65	-20	-70	-20	0	0	-20	1000 480 lb. Bales
Ending Stocks	1938	1792	2060	858	845	1080	0	0	800	1000 480 lb. Bales
Total Distribution	4757	4597	4757	3038	2792	3160	0	0	1780	1000 480 lb. Bales
Stock to Use %	65.8288	61.1604	72.9978	38.0487	40.7818	50.1160	0	0	75.8293	(PERCENT)
Yield	1814	1711	1814	1652	1523	1675	0	0	1524	(KG/HA)

## Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at:

<http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

Report Number	Title of Report	Date
7025	Senate To Hold Inquiry Into NZ Apple Decision	04/19/07
AS7024	AWB Shareholders Sue for A\$25m	04/18/07
AS7023	Ag DownUnder Vol. 5, 2007	04/13/07
AS7021	Additional Comments Sought on Nutrition & Health Claims Standard	04/11/07
AS7020	Sugar Annual	04/10/07
AS7018	Ag Down Under Vol. 4	03/27/07
AS7017	Biosecurity Policy Determination - Importation of Apples from New Zealand	03/27/07
AS7016	Grain and Feed Annual	03/27/07
AS7014	Stone Fruit Annual	03/16/07
AS7012	Ag DownUnder Vol. 3, 2007	03/09/07
AS7009	Cotton Quarterly Lockup Report	02/27/07